



SACO posted a net income of SAR 11.7mn (SAR 0.33 EPS) in line with our estimate of SAR 10.7mn and a consensus estimate of SAR 10.3mn. Net income was adversely affected by reduced revenue due to the partial store closure amid COVID-19; lower GP Margin; and higher S&M expense, finance cost, and zakat. We expect revenue and margins to continue to be negatively impacted in the near and medium terms owing to COVID-19 and a hike in VAT. We maintain our “Neutral” rating on the stock with a revised TP of SAR 44.40/share to account for these additional near-term challenges.

- SACO recorded a net income of SAR 11.7mn in Q1-20 (EPS of SAR 0.33), down 39.1% Y/Y and up 93.4% Q/Q. Net profit for Q1-20 was in line with our and market estimate of SAR 10.7mn and SAR 10.3mn respectively. The Y/Y drop was mainly due to lower sales; reduced GP Margin; and higher OPEX, finance cost, and zakat expense.
- The company’s revenue totaled SAR 358.0mn in Q1-20, down 3.3% Y/Y and 8.7% Q/Q, in line with our estimate of SAR 341.9mn. SACO temporarily closed 15 showrooms in the second half of March, which had affected the company revenue. SACO opened two showrooms in Q1-20, and plans to open at least two more stores by the end of FY-20. The increase in VAT from 5% to 15% from July is likely to severely dent revenue in H2-20. We expect some pre-buying to happen in Q2-20, which could boost sales in May and June, partially offsetting the negative impact of COVID-19 in the quarter. However, revenues would remain under pressure in the near and medium terms.
- Gross profit stood at SAR 58.9mn, down 7.7% Y/Y and 6.7% Q/Q; it was in line with our estimate of SAR 55.6mn. However, the GP Margin narrowed to 16.5% in Q1-20 from 17.2% in Q1-19, close to our estimate of 16.3%. The double whammy of COVID-19 and VAT could result in additional margin pressure in the next few quarters.
- Operating profit stood at SAR 25.5mn, down 14.7% Y/Y and up 42.5% Q/Q. Net OPEX decreased 1.5% Y/Y to SAR 33.5mn from SAR 34.0mn in Q1.19, in line with our estimate of SAR 34.8mn. Operating profit was negatively affected due to higher S&M expense and a decrease in other income.

AJC view: SACO’s overall results were in line with our expectations. Sales declined due to partial closure of stores, while higher S&M expenses negatively impacted the margins. The company would take a hit from COVID-19 and higher VAT, which could result in lower earnings for the next few quarters. We estimate EPS for FY-20 at SAR 0.89 to account for these challenges. In the long term, we believe SACO has the potential to benefit from growth opportunities through store expansion, introduction of new product categories, and increased online sales, all of which could lead to higher market share. LT market share gains through expansions in a highly fragmented market remain SACO’s main LT positive catalyst. The impact on revenue from pressure on purchasing power and loss of market share to competitors are key downside risks to this valuation. We value SACO on 50% weight for DCF (3.0% terminal growth and 7.1% average WACC), 25% weight each for P/E (23.6x FY20 EPS) and EV/EBITDA (10.5x FY20 EBITDA) based relative valuation, yielding TP of SAR 44.4/share, implying 13.2% upside. The stock is currently trading at a P/E of 43.0x based on our FY20 EPS estimate. We maintain our “Neutral” rating on SACO and lower our TP to SAR 44.4/share.

SARmn	Q1-19	Q4-19	Q1-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	370.2	392.1	358.0	-3.3%	-8.7%	4.7%
Gross Profit	63.9	63.1	58.9	-7.7%	-6.7%	6.1%
Gross Margin	17.2%	16.1%	16.5%	-	-	-
EBIT	29.9	17.9	25.5	-14.7%	42.5%	22.7%
Net Profit	19.2	6.1	11.7	-39.1%	93.4%	9.1%
EPS	0.53	0.17	0.33	-	-	-

Source: Company Reports, AlJazira Capital

Neutral

Target Price (SAR) 44.4

Upside / (Downside)* 13.2%

Source: Tadawul *prices as of 18th of May 2020

Key Financials

	FY18	FY19	FY20E
Revenue	1,390.5	1,457.8	1,387.4
Growth %	-4.5%	4.8%	-4.8%
Net Income	97.9	61.6	32.0
Growth %	-27.4%	-37.1%	-48.1%
EPS	2.72	1.71	0.89

Source: Company reports, Aljazira Capital

Key Ratios

	FY18	FY19	FY20E
Gross Margin	18.0%	17.8%	16.2%
Net Margin	7.0%	4.2%	2.3%
P/E	24.3x	30.4x	43.0x
P/B	3.8x	3.5x	2.4x
EV/EBITDA (x)	16.0x	12.0x	10.8x
Dividend Yield	2.5%	3.8%	0.0%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	1.37
YTD %	-26.7%
52 Week (High)/(Low)	74.00/33.15
Shares Outstanding (mn)	36.00

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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- Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
- Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
- Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
- Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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